

# **Regional Area Road Fund Maricopa Transportation Excise Tax**

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**Fiscal Year 2002  
Year-End Report**



**Arizona Department of Transportation  
Financial Management Services  
Office of Financial Planning  
August 2002**

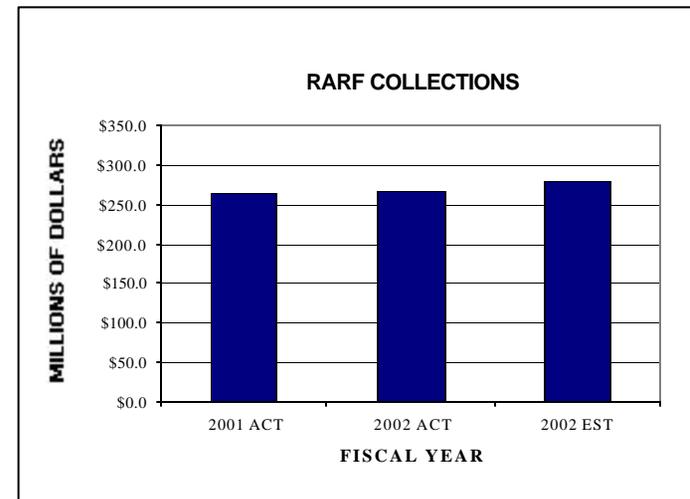
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# REGIONAL AREA ROAD FUND MARICOPA TRANSPORTATION EXCISE TAX EXECUTIVE SUMMARY

The Maricopa County Transportation Excise Tax, often referred to as the "1/2 cent sales tax", is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. The transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal source of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design and construction of controlled access highways. The tax is expected to yield \$3.8 billion for the period January 1986 through December 2005.

The Maricopa County transportation excise tax collections totaled \$267.6 million in FY 2002, an increase of 1.1 percent over the FY 2001 revenue level, but was 4.3 percent below the forecast. FY 2002 revenue growth was the lowest since the inception of the tax. The only bright area was the contracting revenue category which produced a 6.2 percent increase over the FY 2001 revenue level.

The second half of FY 2001 experienced a slowdown in economic activity which continued during FY 2002. The weak economy was drastically impacted by the tragic events in September 2001. The loss of jobs in Maricopa County along with the stock market drop and economic uncertainty were all contributors to the slow growth in excise tax collections during FY 2002.



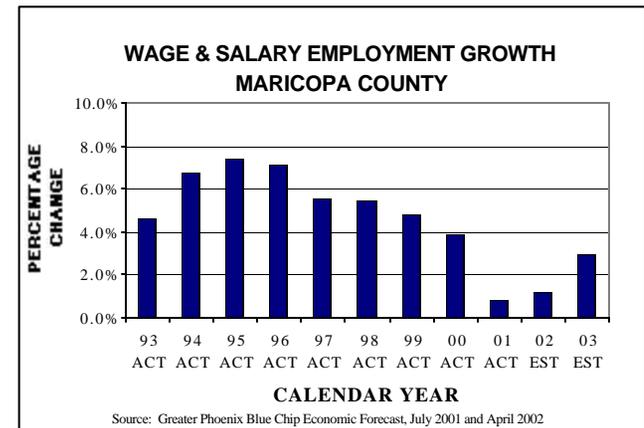
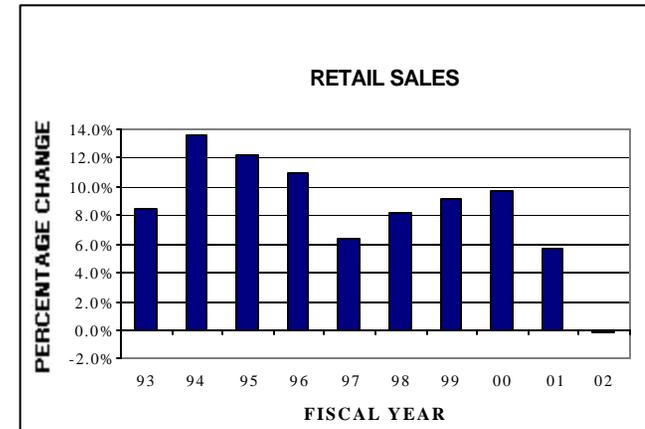
# PERFORMANCE BY CATEGORY

## RETAIL SALES:

FY 2002 retail sales revenue totaled \$131.4 million, a decrease of 0.2 percent from FY 2001 and 5.3 percent below the estimate. This represented the first time since the inception of the tax that retail sales revenue had negative growth. The sharp downturn in the economy led to a higher unemployment rate and lower business and consumer spending. Inflation and population growth provide for the annual growth in retail sales collections. This past year experienced lower inflation which contributed to the slower growth in the retail sales collections. Retail sales did experience growth in the motor vehicle sector but was offset by negative growth in other sectors.

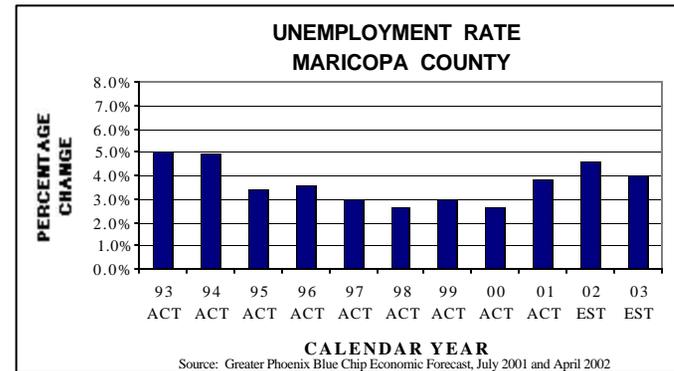
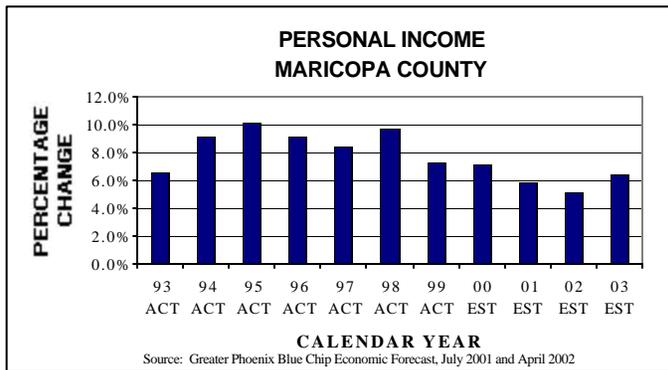
Maricopa County retail sales are forecasted using three economic indicators, wage and salary employment, personal income and unemployment. The April 2002 Greater Phoenix Blue Chip consensus estimates predict the Maricopa County economy should bottom out in Calendar Year (CY) 2002 while improving slightly in CY 2003. The forecast for wage and salary employment growth estimates show an increase from 1.2 percent in CY 2002 to 3.0 percent in CY 2003. CY 2000 and CY 2001 actual growth was 3.9 and 0.8 percent, respectively.

Personal income growth is estimated to be 5.1 percent in CY 2002 and 6.4 percent in CY 2003. However, there remains a moderate level of economic uncertainty and Maricopa County personal income



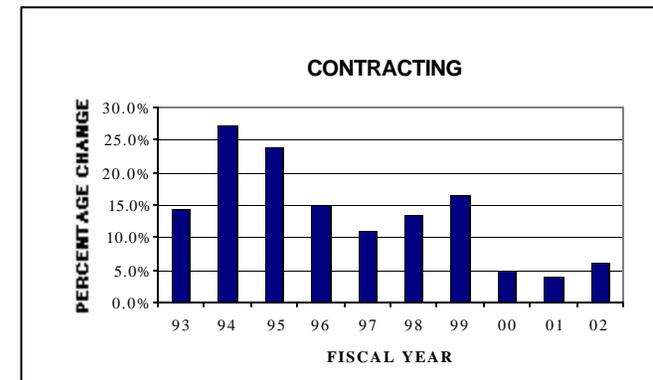
RETAIL SALES: Continued

growth may be further impacted by a continued sluggish economy. The growth in personal income during CY 2000 and CY 2001 was 7.1 and 5.9 percent, respectively. The unemployment rate was sharply impacted over the past twelve months due to layoffs in the manufacturing and service sectors. The tragic events in September 2001 also contributed to significant job losses in the hospitality industry. The Maricopa County unemployment rate is estimated at 4.6 percent in CY 2002 and 4.0 percent in CY 2003. The July 2001 estimate for the CY 2002 unemployment rate was 3.5 percent, which shows the magnitude of the Maricopa County economic slowdown over the past twelve months.



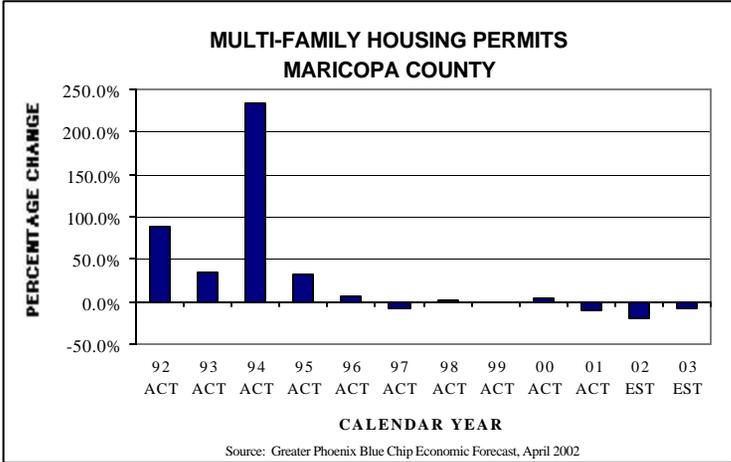
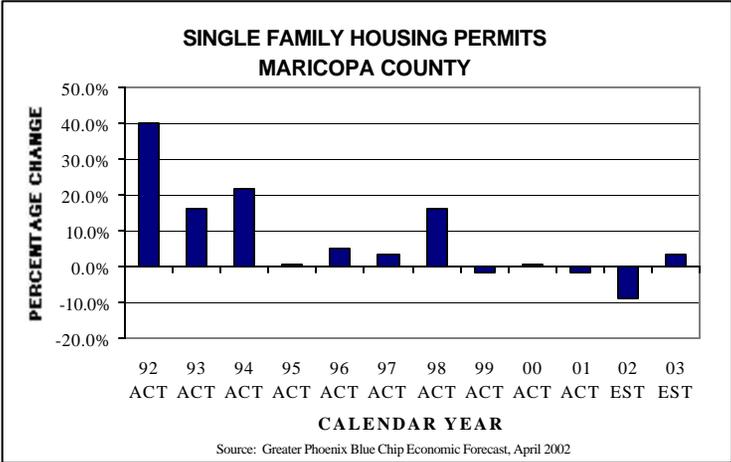
CONTRACTING:

The bright spot for FY 2002 was contracting collections which totaled \$41.2 million, an increase of 6.2 percent over FY 2001 and 4.1 percent above the estimate. The contracting revenue growth in FY 2002 was a welcomed surprise since local economists have been predicting a slowdown in construction for the past three years. Although the construction sector has begun to experience negative growth in the number of permits, the total dollar value increased 7.7 percent in CY 2001 over CY 2000 according to Arizona Business, March 2002.



CONTRACTING: Continued

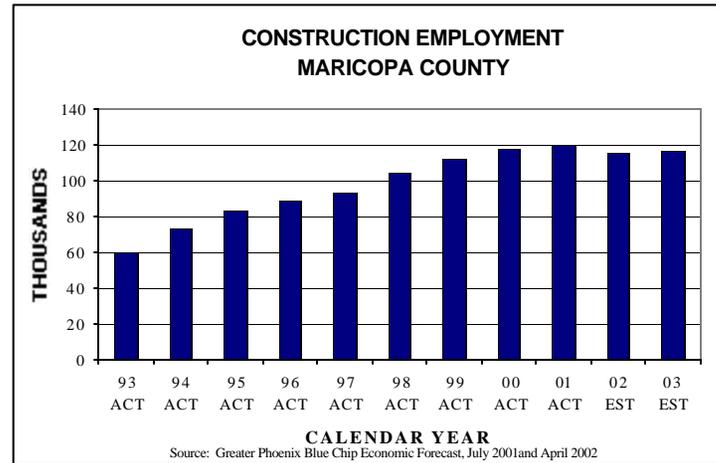
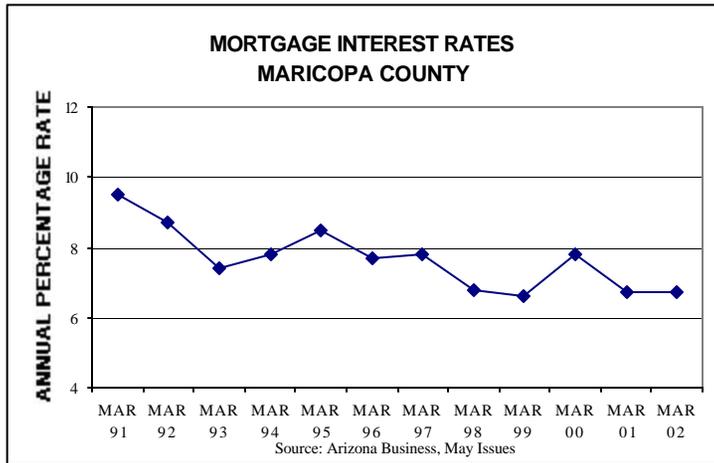
Single-family housing permits in Maricopa County increased by 0.7 percent in CY 2000 but then decreased 1.9 percent in CY 2001. With the help of low mortgage rates and the continued influx of new residents, the downturn in the single-family housing sector has been only mild. Single family housing permits are projected to decrease 9.1 percent in CY 2002 and then surprisingly increase 3.4 percent in CY 2003. With further reductions in mortgage rates, the CY 2002 figure may be a bit pessimistic. Multi-family housing permits saw a 3.2 percent increase in CY 2000 and a 10.1 percent decrease in CY 2001. With the multi-family housing sector nearing an overbuilt level, CY 2002 and CY 2003 are expected to see decreases of 18.9 and 7.9 percent, respectively. Apartment vacancy rates are expected to be around 8 to 8.5 percent in CY 2002 and CY 2003.



The Federal Reserve lowered interest rates five times during FY 2002. Interestingly, the conventional 30 year fixed rate mortgage was 6.7 percent in both March 2001 and March 2002. The low interest rates have provided for better than expected growth in the Greater Phoenix housing market over the past year.

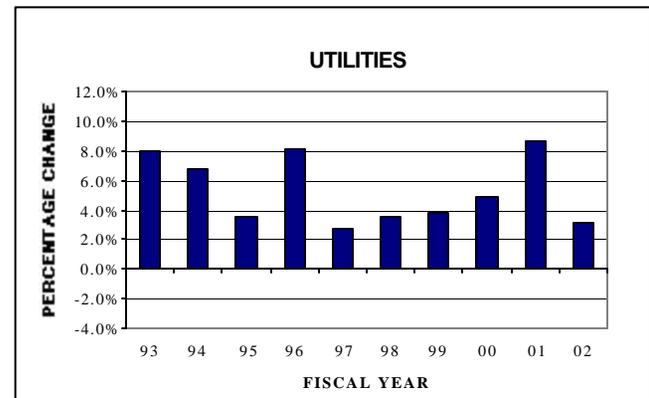
CONTRACTING: Continued

Construction employment is estimated to decrease by 3.6 percent in CY 2002 and then increase by 0.7 percent in CY 2003. These estimates may be a bit pessimistic if interest rates remain low. Stronger than expected residential and commercial construction activity led to modest increases in construction employment in CY 2000 and CY 2001 of 4.8 and 1.5 percent, respectively.



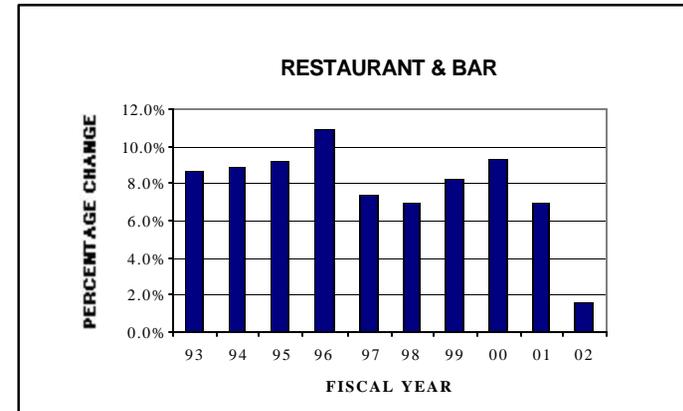
UTILITIES:

Utility tax collections in FY 2002 totaled \$18.4 million, an increase of 3.2 percent over FY 2001 but was 2.5 percent below the estimate. The slower growth in utility tax revenue than forecast was due to slower permit growth in the construction sector along with milder winter and spring temperatures.



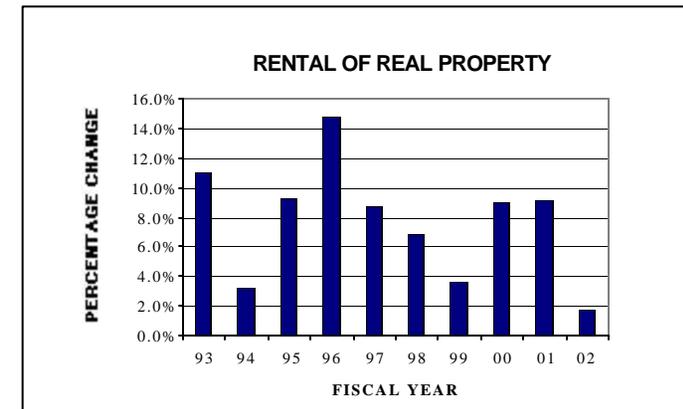
### RESTAURANT AND BAR:

Restaurant and bar collections in FY 2002 reached \$21.7 million, a slight increase of 1.7 percent over FY 2001. When compared to the forecast, restaurant and bar revenues were 4.2 percent below the estimate. The restaurant and bar revenue category was impacted by fewer tourists and business travelers along with local consumers spending less during the fiscal year.



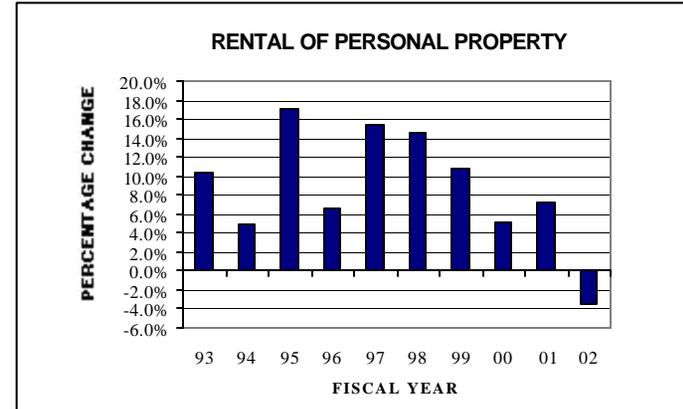
### RENTAL OF REAL PROPERTY:

FY 2002 rental of real property tax collections amounted to \$24.5 million, an increase of 1.7 percent over FY 2001 but 5.3 percent below the forecast. The slow growth in this revenue category can be attributable to the economic slowdown and the tragic events in September 2001. The Maricopa County hotel/motel business was one of the hardest hit sectors, especially after September 2001. On the positive side, apartment housing and commercial rental properties continued to experience healthy demand. This category includes rental of commercial, residential and transient lodging (hotel/motel) facilities.



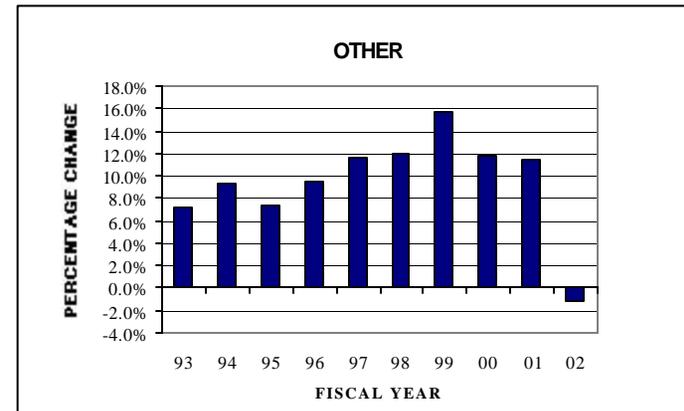
RENTAL OF PERSONAL PROPERTY:

Rental of personal property receipts in FY 2002 totaled \$13.9 million, a decrease of 3.4 percent from the FY 2001 revenue level and 9.6 percent below the estimate. Like most of the other revenue categories, rental of personal property category was not immune to the economic slowdown. Due to the lower number of tourists and business travelers, demand for rental vehicles fell drastically. Also, spending for leased business equipment fell sharply which more than offset the demand for residential and commercial construction equipment leasing. In addition, auto manufacturer's attractive financing incentives may have lured consumers to purchasing instead of leasing their new vehicles.

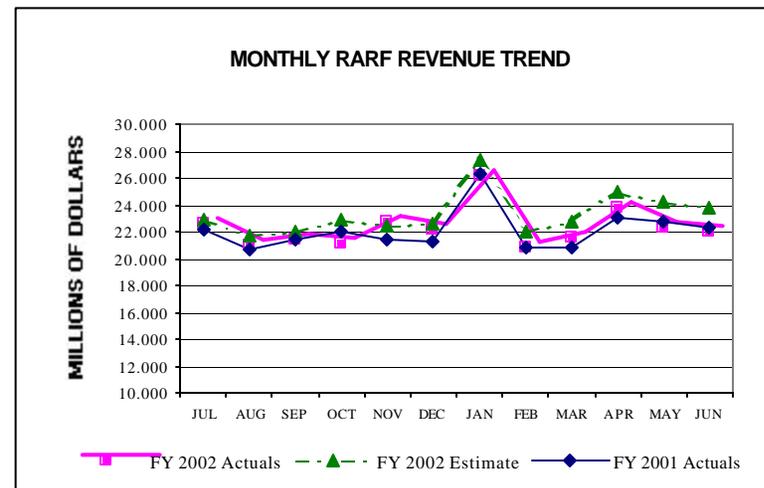
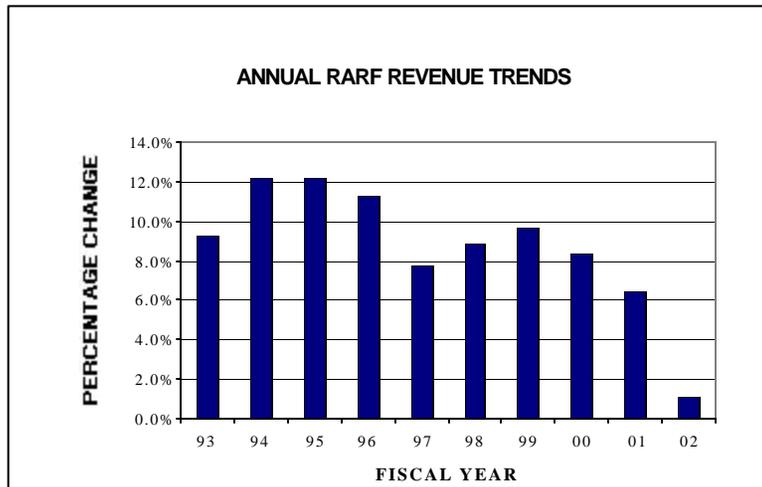


OTHER:

"Other" revenues in FY 2002 amounted to \$16.3 million, a decrease of 1.2 percent from FY 2001 and 10.4 percent below the estimate. Weighing on this revenue category was the negative growth in the publishing/printing and transporting/towing subcategories. This decline can be directly related to the lower business spending during the fiscal year as a result of the economic slowdown. The remaining subcategories saw little or no growth during FY 2002. The "other" revenue category also includes collections from communications, amusements, and pipelines for oil and gas.



# REVENUE TREND ANALYSIS



FY 2002 transportation excise tax collections totaled \$267.6 million, an increase of \$2.8 million or 1.1 percent over FY 2001. This represents the slowest growth rate since the inception of the tax in FY 1986. Although four of the seven revenues categories posted gains in FY 2002, only the contracting and utilities revenue categories showed average to above average growth rates. The fiscal year saw an already weak economy worsen with the tragic events in September 2001 that led to weaker business spending and higher job layoffs. Consumer spending was mainly limited to basic necessities, however, there was some strength in new home and motor vehicle purchases. On the positive side, Maricopa County has benefited from healthy residential construction activity.

The monthly seasonality of excise tax collections continues to follow consistent trends with sharp increases in revenues in the month of January (December collections) due to holiday retail sales.

# REVENUE PERFORMANCE

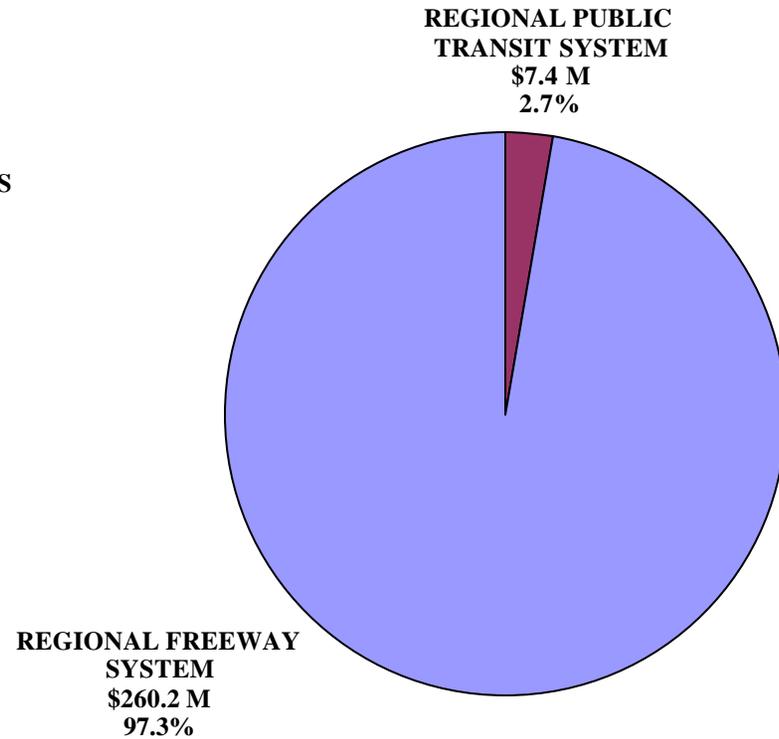
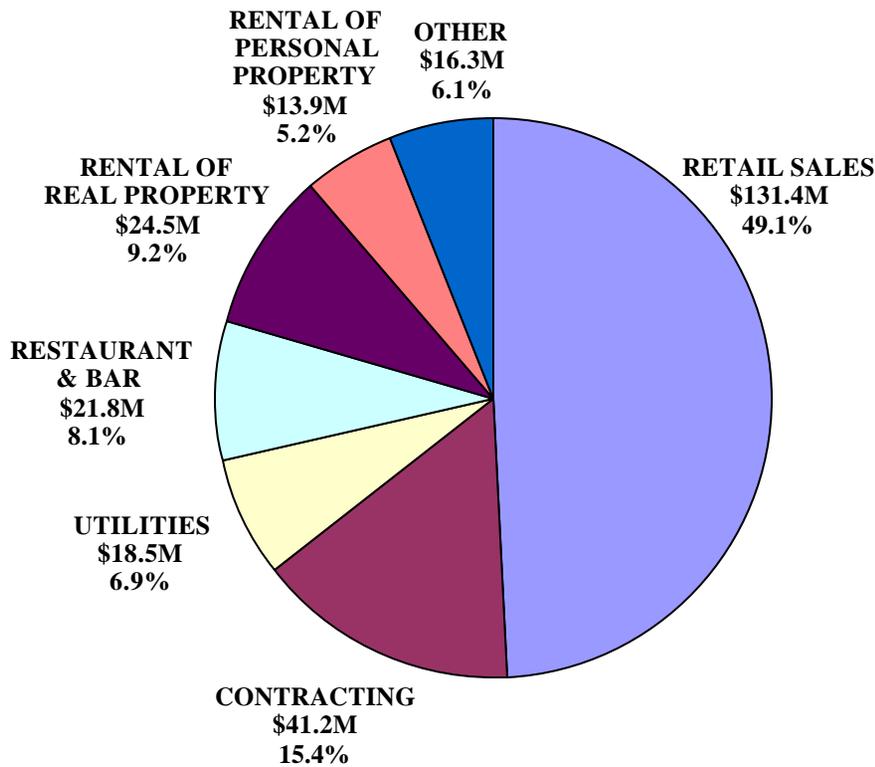
## MARICOPA COUNTY TRANSPORTATION EXCISE TAX

### FY 2002 ACTUAL

**TOTAL= \$267.6 MILLION**

#### SOURCES

#### DISTRIBUTIONS



# MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX REVENUE COMPARISON STATEMENT FY 2002

CATEGORY	FY 2001 ACTUAL	FY 2002 ACTUAL	CHANGE	FY 2002 ESTIMATE	CHANGE
RETAIL SALES	\$131,607,841	\$131,393,323	-0.2%	\$138,800,000	-5.3%
CONTRACTING	38,820,028	41,217,803	6.2%	39,600,000	4.1%
UTILITIES	17,861,545	18,431,792	3.2%	18,900,000	-2.5%
RESTAURANT & BAR	21,394,911	21,748,268	1.7%	22,700,000	-4.2%
RENTAL OF REAL PROPERTY	24,111,944	24,529,320	1.7%	25,900,000	-5.3%
RENTAL OF PERSONAL PROPERTY	14,416,217	13,928,408	-3.4%	15,400,000	-9.6%
OTHER	16,509,954	16,314,429	-1.2%	18,200,000	-10.4%
<b>TOTAL</b>	<b>\$264,722,440</b>	<b>\$267,563,343</b>	<b>1.1%</b>	<b>\$279,500,000</b>	<b>-4.3%</b>

NOTE: Division of collections to business categories is imputed based upon reported taxable income.

# MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX REVENUES COLLECTED BY CATEGORY FY 1986 - 2002 (Dollars in Thousands)

FISCAL YEAR	RETAIL SALES	CONTRACTING	UTILITIES	RESTAURANT & BAR	RENTAL REAL PROPERTY	RENTAL PERSONAL PROPERTY	OTHER	TOTAL	PERCENT CHANGE
1986 *	\$19,244	\$5,716	\$3,073	\$3,682	\$1,923	\$1,733	\$1,615	\$36,986	
1987	48,085	14,849	8,542	7,579	6,822	4,172	4,782	94,831	
1988	51,405	14,188	9,535	8,379	5,994	4,728	4,961	99,190	4.6%
1989	53,927	13,947	10,336	8,795	8,952	4,883	5,410	106,250	7.1%
1990	55,798	13,286	10,685	9,282	10,808	5,289	5,653	110,801	4.3%
1991	56,769	12,715	11,353	9,655	11,091	5,708	6,044	113,335	2.3%
1992	59,108	11,688	10,999	10,280	11,707	6,043	6,671	116,496	2.8%
1993	64,033	13,385	11,874	11,171	12,993	6,672	7,145	127,273	9.3%
1994	72,737	17,039	12,680	12,166	13,414	7,002	7,808	142,846	12.2%
1995	81,546	21,107	13,132	13,291	14,660	8,198	8,384	160,318	12.2%
1996	90,454	24,284	14,198	14,739	16,822	8,734	9,183	178,413	11.3%
1997	96,281	26,948	14,583	15,821	18,298	10,074	10,252	192,257	7.8%
1998	104,073	30,610	15,101	16,917	19,552	11,539	11,472	209,263	8.8%
1999	113,528	35,632	15,680	18,304	20,266	12,787	13,272	229,470	9.7%
2000	124,428	37,384	16,437	20,005	22,080	13,434	14,827	248,596	8.3%
2001	131,608	38,820	17,862	21,395	24,112	14,416	16,510	264,722	6.5%
2002	131,393	41,218	18,432	21,748	24,529	13,928	16,314	267,563	1.1%
<b>TOTAL</b>	<b>\$1,354,417</b>	<b>\$372,816</b>	<b>\$214,502</b>	<b>\$223,210</b>	<b>\$244,023</b>	<b>\$139,340</b>	<b>\$150,303</b>	<b>\$2,698,612</b>	

COMPOUND ANNUAL GROWTH RATE (FY 1987 - FY 2002) = 7.2%

\*The tax became effective January 1, 1986

# ARIZONA TRANSACTION PRIVILEGE TAX EXCISE TAX RATES FY 2002

Taxable Activity	Percent of Total Maricopa County Transaction Privilege Tax Collections	Transaction Privilege Tax Rate	Transportation Excise Tax Rate
Retail Sales	49.11%	5.00%	0.50%
Contracting	15.40%	5.00%	0.50%
Rental of Real Property (including hotels & motels)	9.17%	1.82%*	0.512%
Restaurants and Bars	8.13%	5.00%	0.50%
Utilities	6.89%	5.00%	0.50%
Rental of Personal Property	5.21%	5.00%	0.50%
Communication	3.73%	5.00%	0.50%
Amusements	1.12%	5.00%	0.50%
Publishing and Printing	0.70%	5.00%	0.50%
Other	0.56%	5.00%	0.50%
Mining	0.00%	3.125%	0.3125%
Wholesale Feed	0.00%	0%**	0.00%

\* In 1990 and 1993, legislation reduced the transaction privilege tax rate for real property rentals, however, for transportation excise tax purposes, the rate was retained at its prior level.

\*\* In 1994, legislation repealed the transaction privilege tax for livestock and poultry feed, salts, vitamins and other additives for livestock and poultry. The tax rate was reduced to zero on July 17, 1994 and then the tax classification was repealed on October 1, 1994.

# REVENUE CATEGORY DEFINITIONS

<b>RETAIL SALES</b>	Includes retail sales of automobiles, durable goods and other general merchandise, apparel, building materials, furniture and other tangible personal property. The tax on food was repealed in July, 1980.
<b>CONTRACTING</b>	Includes prime contracting and dealership of manufactured buildings and owner-builder operations.
<b>UTILITIES</b>	Includes producing and/ or furnishing to consumers electricity, natural or artificial gas and water.
<b>RESTAURANT AND BAR</b>	Includes operations of restaurants and drinking establishments.
<b>RENTAL OF REAL PROPERTY</b>	Includes leasing or renting real property, hotels and motels.
<b>RENTAL OF PERSONAL PROPERTY</b>	Includes leasing or renting tangible personal property such as leased vehicles and construction equipment.
<b>OTHER</b>	Includes operations of amusement places, intrastate telecommunication services, job printing, engraving, embossing and publication, publication of newspapers, magazines and other periodicals, intrastate transportation of persons, freight or property, and intrastate operation of pipelines for oil or natural or artificial gas.